

## Message Text

LIMITED OFFICIAL USE

PAGE 01 MANILA 09666 01 OF 02 140800Z

10

ACTION TRSE-00

INFO OCT-01 EA-11 NEA-14 ISO-00 IO-14 L-03 SP-03 AID-20

EB-11 NSC-07 RSC-01 CIEP-03 SS-20 STR-08 OMB-01

CEA-02 CIAE-00 COME-00 FRB-03 INR-11 NSAE-00 XMB-07

OPIC-12 LAB-06 SIL-01 DRC-01 /160 W

----- 062694

P 140625Z AUG 74

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 6000

INFO AMEMBASSY ISLAMABAD PRIORITY

LIMITED OFFICIAL USE SECTION 1 OF 2 MANILA 9666

USADB

FOR NAC AGENCIES

E.O. 11652: DECLAS 11-14-74

TAGS: EAID, EFIN, PK

SUBJECT: PROPOSED ADB LOANS FOR TARBELA HYDROPOWER  
PROJECT (PAKISTAN)

SUMMARY: ADB MANAGEMENT PROPOSES \$34.0 MILLION EQUIVALENT  
LOAN FROM ORDINARY CAPITAL RESOURCES AND \$13.0 MILLION  
LOAN FROM SPECIAL FUNDS RESOURCES TO GOVT OF PAKISTAN TO  
FINANCE FOREX COST OF EXTENSION OF TARBELA POWER HOUSE  
TO ACCOMMODATE FOUR ADDITIONAL HYDROELECTRIC GENERATING  
UNITS INCLUDING ASSOCIATED PENSTOCKS, PROCUREMENT AND  
INSTALLATION OF TWO GENERATING UNITS, AND  
PROVISION OF CONSULTING SERVICES. PROJECT IS PART OF  
LONG-TERM POWER EXPANSION PROGRAM OF WEST PAKISTAN WATER  
AND POWER DEVELOPMENT AUTHORITY (WAPDA). USADB RE-  
COMMENDS FAVORABLE NAC ACTION.

1. ADB DOC R75-74 WITH ATTACHMENTS DESCRIBING PROPOSED  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 MANILA 09666 01 OF 02 140800Z

LOANS POUCHED ADDRESSEES AUG. 7. BOARD CONSIDERATION

SCHEDULED AUG. 27.

2. ADB MANAGEMENT PROPOSING TWO LOANS TOTALING \$47.0 MILLION EQUIVALENT -- \$34.0 MILLION FROM SPECIAL FUNDS RESOURCES AND \$13.0 MILLION FROM ORDINARY CAPITAL RESOURCES -- TO GOVT OF PAKISTAN. PROCEEDS WILL FINANCE FOREX COST OF CIVIL WORKS TO EXTEND TARBELA POWER HOUSE TO ACCOMMODATE FOUR ADDITIONAL HYDROELECTRIC GENERATING UNITS (UNITS 5-8) INCLUDING PENSTOCKS; PROCUREMENT AND INSTALLATION OF TWO GENERATING UNITS (UNITS 5 AND 6) EACH RATED 175 MW, INCLUDING RELATED PLANT AND SWITCHYARD ELECTRICAL EQUIPMENT; AND PROVISION OF SERVICES OF CONSULTANTS. PROPOSED TERMS ARE 40 YEAR AMORATIZATION INCLUDING 10 YEAR GRACE PERIOD, ONE PERCENT SERVICE CHARGE, FOR SPECIAL FUNDS LOAN AND 25 YEARS INCLUDING 5 YEAR GRACE PERIOD, AT INTEREST RATE PREVAILING AT TIME OF LOAN APPROVAL FOR ORDINARY CAPITAL LOAN. ISLAMIC REPUBLIC OF PAKISTAN TO BE BORROWER AND WAPDA THE EXECUTING AGENCY. GOVT WILL RELEND PROCEEDS OF LOAN TO WAPDA ON TERMS AND CONDITIONS ACCEPTABLE TO BANK.

3. WAPDA AND KARACHI ELECTRIC SUPPLY CORP, LTD. (SESC) CONTROL 90 PERCENT OF ALL ELECTRICITY SUPPLIED IN PAKISTAN. WAPDA'S POWER WING IS RESPONSIBLE FOR GENERATION, TRANSMISSION AND DISTRIBUTION OF POWER THROUGHOUT PAKISTAN, EXCEPT FOR KARACHI AREA WHICH IS SERVED BY KESC. AS OF JAN. 1, 1974 WAPDA'S POSWER WING HAD INSTALLED GENERATING CAPACITY OF 1315 MW, HALF HYDRO AND HALF THERMAL, WITH INDUSTRIAL AND AGRICULTURAL CONSUMERS ACCOUNTING FOR THREE QUARTERS OF ENERGY SALES.

4. IN PAST FEW YEARS WAPDA HAS HAD CONSIDERABLE DELAYS IN FINANCING, CONSTRUCTING AND COMMISSIONING NEW GENERATION PLANT AND TRANSMISSION FACILITIES. LAST MAJOR GENERATING UNIT COMMISSIONED WAS 100 MW MANGLA NO. 4 UNIT IN 1968. HENCE, INDUSTRY EXPERIENCING LOAD SHEDDING AND STAGGERING OF WORK SCHEDULES. SUBSTANTIAL IMPROVEMENT IS TAKING PLACE THIS YEAR WITH COMPLETION OF 400 MW OF GENERATING PLANT AT GUDDU AND MANGLA, WHICH WERE ORIGINALLY PLANNED FOR 1971 AVAILABILITY. HOWEVER, GROWING WAITING LIST FOR NEW AGRICULTURAL (MAINLY TUBEWELLS) AND INDUSTRIAL CONNEC-  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 MANILA 09666 01 OF 02 140800Z

TIONS WILL REQUIRE MANY YEARS TO OVERCOME SUPPLY DEFICIENCY. (BANK APPROVED LOANS TOTALING \$16.7 MILLION IN DEC. 1973 FOR TWO 100 MW UNITS (UNITS NOS. 7 AND 8) FOR MANGLA HYDROPOWER PROJECT, WHICH IS EXPECTED TO BE COMPLETED BY DEC. 1977.)

5. TARBELA DAM PROJECT IS LOCATED ABOUT 40 MILES NORTH-WEST OF ISLAMABAD ON INDUS RIVER AND WILL BE FINAL

DEVELOPMENT PROJECT ENVISIONED IN INDUS WATERS TREATY OF 1960. FINANCING WAS PROVIDED BY TARBELA DEVELOPMENT FUND (ESTABLISHED IN 1968) AND ADMINISTERED BY IBRD WITH MULTI-NATIONAL CONTRIBUTIONS AND TRANSFER OF UNUTILIZED FUNDS FROM INDUS BASIN DEVELOPMENT FUND. WHEN COMPLETED IN AUG. 1974, DAM WILL BE WORLD'S LARGEST EARTH-FILL DAM, CREATING RESERVOIR WITH GROSS STORAGE CAPACITY OF 11.1 MILLION ACRE FEET. PROJECT UNDER CONSTRUCTION INCLUDES POWER STATION ADJACENT TO DAM WITH FOUR 175 MW EACH GENERATING UNITS. POWER STATION IS SCHEDULED FOR COMPLETION BY MID-1976. PROJECT PROVIDES FOR 12 UNITS EVENTUALLY WITH 2100 MW TOTAL CAPACITY. WITH ADDITION OF UNITS 5 AND 6 UNDER PROPOSED BANK PROJECT, ANTICIPATED BY JULY 1979, TARBELA STATION CAPACITY WILL BE 1050 MW OR ONE-HALF OF TOTAL PLANNED CAPACITY.

6. TOTAL COST OF PROPOSED PROJECT IS ESTIMATED AT \$91.0 MILLION, WITH BANK FINANCING \$47.0 MILLION FOREX COMPONENT AND WAPDA OR, MORE LIKELY GOVT PROVIDING \$44.0 MILLION LOCAL COST FINANCING. IN VIEW OF PAKISTAN'S LOW PER CAPITA INCOME, SUBSTANTIAL DEBT SERVICE OBLIGATIONS AND BALANCE OF PAYMENTS POSITION, BANK PROPOSES BLEND OF ORDINARY CAPITAL AND SPECIAL FUNDS LOAN.

7. MAJOR CIVIL WORKS CONTRACT FOR POWER HOUSE EXTENSION AND CONSULTING SERVICES WOULD BE FINANCED FROM ORDINARY CAPITAL LOAN, WHILE TURBINE GENERATORS, PLANT ELECTRICAL AND SWITCHYARD EQUIPMENT (INCLUDING TRANSFORMERS) AND CIVIL WORKS SUB-CONTRACT INVOLVING CONSTRUCTION OF PENSTOCKS AND STEEL BULKHEADS TO CONNECT NO. 2 TUNNEL TO EXTENDED POWER HOUSE WOULD BE PROCURED UNDER SPECIAL FUNDS LOAN.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 MANILA 09666 02 OF 02 141447Z

46

ACTION TRSE-00

INFO OCT-01 EA-11 NEA-14 ISO-00 IO-14 L-03 SP-03 AID-20

EB-11 NSC-07 RSC-01 CIEP-03 SS-20 STR-08 OMB-01

CEA-02 CIAE-00 COME-00 FRB-03 INR-11 NSAE-00 XMB-07

OPIC-12 LAB-06 SIL-01 DRC-01 /160 W

----- 066300

P 140625Z AUG 74  
FM AMEMBASSY MANILA  
TO SECSTATE WASHDC PRIORITY 6001  
INFO AMEMBASSY ISLAMABAD PRIORITY

LIMITED OFFICIAL USE SECTION 2 OF 2 MANILA 9666

USADB

FOR NAC AGENCIES

8. PROCUREMENT WILL BE IN ACCORDANCE WITH BANK'S GUIDELINES. CIVIL WORKS CONTRACT OF \$200,000 OR MORE AND SUPPLY CONTRACTS OF \$100,000 OR MORE WILL BE SUBJECT TO INTERNATIONAL COMPETITIVE BIDDING WITH PRIOR BANK APPROVAL OF AWARDS. SMALLER CONTRACTS MAY BE AWARDED ON PRINCIPLE OF REASONABLE COMPETITION WITHOUT PRIOR BANK APPROVAL. TARBELA JOINT VENTURE, CONSORTIUM OF ITALIAN, FRENCH, GERMAN, AND SWISS CONTRACTORS, WHICH HAS CONTRACT FOR CONSTRUCTION OF CIVIL WORKS OF CURRENT PROJECT, RECENTLY ENTERED INTO CONSORTIUM ARRANGEMENT WITH LOCAL CONSTRUCTION COMPANY FOR CIVIL WORKS REQUIRED FOR LEFT BANK (NO. 5) TUNNEL WHICH WILL SUPPLEMENT LOW LEVEL IRRIGATION RELEASES FROM DAM. BANK SUPPORTS WAPDA AND GOVT REQUEST FOR SIMILAR ARRANGEMENT FOR MAIN CIVIL WORKS CONTRACT PROVIDED FULL RESPONSIBILITY REMAINS WITH FOREIGN CONTRACTOR. BANK ALSO SUPPORTS WAPDA PREFERENCE FOR SINGLE CONTRACTUAL ARRANGEMENT FOR CONSULTING SERVICES INVOLVING BOTH FOREIGN AND LOCAL FIRMS WITH FOREIGN FIRM ASSUMING FULL RESPONSIBILITY FOR PROJECT.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 MANILA 09666 02 OF 02 141447Z

CONSULTANTS WILL BE APPOINTED IN ACCORDANCE WITH BANK'S GUIDELINES FOR (A) PREPARATION OF DETAILED DESIGNS AND TENDER DOCUMENTS; (B) ASSISTANCE IN EVALUATION OF PREQUALIFICATION APPLICATIONS AND TENDERS, MAKING OF RECOMMENDATIONS FOR CONTRACT AWARDS, AND ASSISTANCE WITH CONTRACT NEGOTIATIONS; AND (C) SUPERVISION OF POWER HOUSE CONSTRUCTION AND INSTALLATION, TESTING AND COMMISSIONING OF ALL EQUIPMENT. (PRESENT PROJECT IS BEING IMPLEMENTED WITH ASSISTANCE OF CONSULTING FIRM TIPPETS-ABBETT-MCCARTHY-STRATTON INTERNATIONAL (U.S.) AND GENERAL CONSULTANTS TO PROJECT ARE HARZA INTERNATIONAL (U.S.) FOR WAPDA AND SIR ALEXANDER GIBB AND PARTNERS (U.K.) FOR IBRD.)

9. WAPDA, THE EXECUTING AGENCY, WAS ESTABLISHED IN 1958 AS AN AUTONOMOUS GOVT AUTHORITY. WHILE BANK BELIEVES WAPDA'S CONSTRUCTION AND OPERATION OF HYDROPOWER FACILITIES AND ADMINISTRATION OF INDUS RIVER SCHEME HAVE BEEN COMMENDABLE, RECORD WITH THERMAL PLANTS HAS NOT BEEN IMPRESSIVE. INADEQUATE

PLANNING OF TRANSMISSION AND DISTRIBUTION FACILITIES HAS CONTRIBUTED TO HIGH LEVEL OF SYSTEMS LOSSES. ENERGY LOSSES EXCEED 30 PERCENT DUE PRIMARILY TO OVER-LOADED TRANSMISSION AND DISTRIBUTION FACILITIES. SERIES OF MAJOR STUDIES FINANCED BY IBRD AND USAID INDICATED WAPDA'S RESPONSIBILITIES WERE TOO BROAD; THAT DIFFERENT POWER AND WATER AUTHORITIES SHOULD BE ESTABLISHED OR THAT POWER WING'S DISTRIBUTION AND RETAILING OF ELECTRICITY SHOULD BE DECENTRALIZED; ALSO WAPDA'S MANAGEMENT STRUCTURE AND PERSONNEL POLICIES SHOULD BE IMPROVED. NEW CHAIRMAN WAS APPOINTED IN 1972 WITH IMPRESSIVE TECHNICAL AND ADMINISTRATIVE EXPERIENCE IN POWER AND WATER RESOURCE DEVELOPMENT, AND REORGANIZATION IS IN PROGRESS WHEREBY PROVINCIAL GOVTS HAVE OPTION TO PROGRESSIVELY ACQUIRE ASSETS OF WAPDA'S POWER DISTRIBUTION RESPONSIBILITIES. BANK HAS RECEIVED ASSURANCE THAT FINAL ARRANGEMENT WILL BE TECHNICALLY ACCEPTABLE TO BANK AND, EXCEPT AS BANK OTHERWISE AGREES, TRANSFER WILL BE COMPLETED BY MARCH 31, 1975.

10. IN CONNECTION WITH MANGLA HYDROPOWER PROJECT, WAPDA COMMITTED ITSELF TO BANK TO UNDERTAKE AND COMPLETE BY OCT. 1, 1974 RECONSTRUCTION OF ITS ACCOUNTS BASED ON ACCURATE INVENTORY OF FACILITIES AND REVALUED ASSETS, AS LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 MANILA 09666 02 OF 02 141447Z

BASIS FOR CONSULTATIONS ON TARIFF ADJUSTMENTS AND OTHER FINANCIAL MEASURES. HOWEVER, BANK MISSION FOUND LITTLE EFFECTIVE ACTION WAS TAKEN AT TIME OF PROPOSED LOAN APPRAISAL. AFTER DISCUSSION WITH MISSION, WAPDA AGREED TO IMMEDIATELY UNDERTAKE RECONSTRUCTION ITS ACCOUNTS BY EMPLOYING PAKISTANI ACCOUNTING CONSULTANTS AND ASSIGNING SEVERAL WAPDA STAFF TO PROJECT FULL TIME. WAPDA AGREED TO FURNISH INTERIM REPORTS BY OCT. 1, 1974 AND APRIL 1, 1975 AND COMPLETE ACCOUNTING MEASURES AND FINANCIAL PROJECTIONS BY OCT. 1, 1975. MOST RECENT TARIFF ADJUSTMENT BECAME EFFECTIVE IN JULY 1974, WHICH RAISED AVERAGE REVENUE PER KWH ABOUT 10 PERCENT EXCEPT FOR DOMESTIC CONSUMERS. WAPDA HAS AGREED TO ESTABLISH AND MAINTAIN ELECTRICITY TARIFFS AT LEVELS TO COVER ALL OPERATING EXPENSES AND DEBT AMORTIZATION IN EXCESS OF DEPRECIATION AND TO FINANCE REASONABLE PROPORTION OF CAPITAL EXPENDITURES. WAPDA HAS ALSO AGREED TO APPOINT INDEPENDENT AUDITOR TO AUDIT ITS FINANCIAL ACCOUNTS.

11. FINANCIAL PERFORMANCE OF WAPDA'S POWER WING LEAVES MUCH TO BE DESIRED AT PRESENT, AND BANK NEEDS TO MAINTAIN SHORT REIN ON EXECUTING AGENCY. IN VIEW WAPDA'S POOR FINANCIAL CONDITION AND BANK'S HEAVY INVOLVEMENT IN FINANCING, USADB IS SURPRISED THAT BANK IS NOT ESTABLISHING SOME FINANCIAL BENCHMARKS (E.G. DEBT-EQUITY RATION, DEBT

SERVICE RATION, ETC.) FOR WAPDA TO ADHERE TO AND INTENDS  
TO RAISE ISSUE WITH MANAGEMENT DURING BOARD CONSIDERATION.

12. TRANSFER OF WAPDA'S POWER DISTRIBUTION RESPONSIBILITIES  
OT PROVINCES AND EFFECTIVE EFFORTS TOWARD RECONSTRUCTION  
OF WAPDA'S ACCOUNTS SHOULD ENABLE POWER WING TO OPERATE  
ON SOUNDER FINANCIAL BASIS IN FUTURE. BANK INDICATES THAT  
BY ENLARGING HYDRO GENERATION, PROPOSED JROJECT WILL HELP  
TO IMPROVE FUTURE FINANCIAL POSITION OF WAPDA. PROJECT  
IS CONSIDERED TO BE TECHNICALLY FEASIBLE, FINANCIALLY  
SOUND AND ECONOMICALLY VIABLE. WITH ECONOMIC INTERNAL RATE  
OF RETURN OF 19.2 PERCENT AND FINANCIAL RATE OF RETURN OF  
20.8 PERCENT. USADB SUPPORTS PROPOSAL AND RECOMMENDS  
FAVORABLE NAC ACTION.

13 REQUEST ISLAMABAD'S COMMENTS FOR NAC AGENCIES, INFO  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 MANILA 09666 02 OF 02 141447Z

USADB MANILA, PURSUANT TO STATE 119795 DTD 3 JULY 1972.  
SULLIVAN

LIMITED OFFICIAL USE

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** PROCUREMENT, EQUIPMENT, HYDROELECTRIC POWER PLANTS, BANK LOANS, FOREIGN EXCHANGE, PROGRAMS (PROJECTS)  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 14 AUG 1974  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** CollinP0  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1974MANILA09666  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D740223-0273  
**From:** MANILA  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1974/newtext/t19740848/aaaabphb.tel  
**Line Count:** 301  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION TRSE  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 6  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** CollinP0  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 08 AUG 2002  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <08-Aug-2002 by worrelsw>; APPROVED <26 FEB 2003 by CollinP0>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** PROPOSED ADB LOANS FOR TARBELA HYDROPOWER PROJECT (PAKISTAN)  
**TAGS:** EAID, EFIN, PK, ADB-1  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005